

hand revision
22 December

As sent to IAC

~~SECRET~~THE IMPORTANCE OF IRANIAN AND MIDDLE EASTOIL TO WESTERN EUROPEI. The Problem:

To estimate the effects of the loss of (a) Iranian oil production, and (b) total Middle Eastern oil production, upon the viability of Western Europe in time of peace.

II. Discussion: (See Enclosure A).III. Tables: (See Enclosure B).IV. Conclusions:

1. The amount of crude oil and refined products now exported from Iran could be derived from other areas by small increases in crude production and by fuller use of available refining capacity. At the rates of consumption and levels of prices prevailing at the end of 1950, the extra annual dollar charge to Europe of procuring this amount of oil elsewhere would be about \$700,000,000.*

2. Loss of Iranian oil production and of the refinery at Abadan would temporarily set back progress toward Western European viability, and would impose severe financial losses upon the British, who control all the oil production of the country. If proved reserves elsewhere were drilled and new refineries built, at considerable dollar cost, the setback to viability could be overcome in a few years.

3. If all Middle East oil production were to be lost, a cutback of more than 10 percent in oil consumption would have to be imposed throughout the non-Soviet

*Figures in this paper representing estimates of extra annual dollar costs and of the extent of oil shortages which would result from a loss of Iranian or Middle Eastern oil are indicative rather than exact. They will hold true as given only as long as oil prices stay at the levels of late 1950, and oil production and consumption continue at the rates currently estimated for the fiscal year 1950-51. The general effect of the rearmament programs in the US and in Western Europe will presumably be to raise the consumption of oil, and probably also to raise its price. These factors would tend to make the oil of the Middle East more important to the western economies, and to cause its loss to be even more severely felt than is indicated by the figures cited in this paper.

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world. This would call for severe rationing in the United States as well as elsewhere. Complete international cooperation in establishing an inclusive system of international allocation and price control would be required.

4. It is estimated that a cutback of 10 percent from present levels of oil consumption would permit maintenance of Western European industrial production at approximately the levels of late 1950, and of transportation at the extreme minimum necessary for that purpose. No appreciable expansion of industry, whether for achieving viability or for rearmament, would be possible. Rationing of even 10 percent would present great difficulties in time of peace.

5. Loss of the total oil production of the Middle East would thus constitute a disaster to present prospects for a restoration of Western European viability, and it would make the Western European rearmament program, as currently contemplated, impossible of accomplishment. It would be impossible to develop alternative sources of energy within the period of this program.

6. It should be noted, however, that even should the Soviet Union gain control of the output of Middle East oil, it would not be able to use it save to a limited degree under present availabilities of transportation. The USSR would probably, therefore, in time of peace wish to sell considerable amounts of Middle East oil to Western Europe. Since Western European oil requirements cannot adequately be met from other sources, the USSR would thereby acquire considerable bargaining power in seeking to acquire strategic materials and manufactured products.

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1. Total petroleum requirements of Western Europe (including the UK) for the fiscal year 1950-51 are estimated at 66 million metric tons, of which 42.5 million will be imported as crude and 20 million as refined products; the remaining 3.5 million tons will be derived from indigenous sources. Of the total import requirements, ~~43.8~~ 46.3 million metric tons, representing 70 percent, will come from the Middle East. In addition, international bunkers of 6 million tons and US military supplies aggregating approximately 2.5 million metric tons will be lifted in the Middle East area.
2. Of the total requirements of Western Europe, it is estimated that Iran alone will supply the following:

<u>Millions of Metric Tons</u>	
<u>Crude Oil</u>	<u>Percent of WE Requirements</u>
7	16
<u>Refined Products</u>	
6.3 (including British Military)	31
<u>Bunkers</u>	
4	67

3. It is estimated likewise that of total Western European requirements, the entire Middle East area will supply the following:

<u>Millions of Metric Tons</u>	
<u>Crude Oil</u>	<u>Percent of WE Requirements</u>
38	90
<u>Refined Products</u>	
8.3	40
<u>Bunkers</u>	
6	100

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Loss of Iranian Production

4. If Iranian oil should cease to be available, the seven million metric tons of crude oil by which Western Europe would thereby fall short (according to the 1950-51 estimates) could be more than made up by increasing the output of British companies operating elsewhere in the world. Indeed it could all be replaced, at some additional dollar cost, from the other producing areas of the Middle East. Replacement for the balance of Iran's crude oil output (that processed at Abadan) could also be obtained outside the Soviet sphere by releasing shut-in production and by more rapid drilling of known reserves.

5. Loss of the Abadan refinery, with its capacity of 27 million metric tons per year, would call for much more difficult adjustments than would the loss of Iranian crude oil output. There is now in the non-Soviet world, outside Iran, enough refining capacity to process an additional amount of crude equal to that now going through the Abadan plant. If Abadan were lost, however, at least six months would be required to place marginal plants in operation, to change the composition of refinery output, to alter tanker routings, and to complete the redistribution of crude oil among the other refineries.

6. To acquire from other sources the amounts of crude oil and refined products which Western Europe now imports in one year from Iran would involve an extra dollar expenditure of about \$700,000,000, assuming the level of prices remained the same as that prevailing at the end of 1950.

7. Loss of Iranian oil production and of the refinery at Abadan would certainly constitute a severe setback to present prospects for a restoration in Western Europe of viability; that is, of a condition in which the Western European countries, while maintaining a standard of living acceptable to their populations, would pay their way without extraordinary outside assistance. However, the crude oil output of Iran is not irreplaceable, and an adjustment of the non-Soviet world to its loss could eventually be accomplished without great difficulty. To cut down extra annual dol-

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lar expenditure, it would be desirable to build new refineries in non-dollar areas. This would take time, and it would take dollars in large amounts. But it would not permanently impair chances for European viability.

8. Since both the Abadan refinery and the entire oil production and proved oil reserves of Iran are either owned by or under concession to Great Britain, the effects of their loss would be extremely severe upon that country. The nature of these effects is discussed below, in paragraphs 15 and 16.

Loss of all Middle East Oil

9. The loss of all Middle East oil production would reduce the current supply of crude oil in the non-Soviet world by about 93 million metric tons per year. By increasing production to the greatest degree feasible in areas still accessible, this shortage could be reduced to about 53 million metric tons, which is equivalent to about 10 percent of estimated 1950-51 total oil consumption in the non-Soviet world. Sufficient refining capacity would be available to process the reduced total supply of crude, but the problems of readjustment and allocation mentioned in paragraph 5 above would, of course, be greater, and the time required to carry them out would be longer.

10. The maximum cutback in Western European oil consumption which would still permit maintenance of industrial production at approximately the levels of late 1950, and of transportation at the extreme minimum necessary for that purpose, is estimated to be about 10 percent. Such a cutback would cover only about 6.6 million tons of the total deficiency of 53 million. Hence it is clear that even if Western Europe were restricted to less than 90 percent of its estimated 1950-51 consumption, the loss of all Middle East oil would make severe rationing necessary in the United States. Despite the fact that the US is virtually self-sufficient in oil production, it would have to cut its consumption by at least 10 percent. International agreements for allocation and price control would immediately become necessary.

11. At the price level of late 1950 a net increase in dollar requirements of from \$1 to \$1.2 billion would occur if Western Europe, after a cutback of 10 percent

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in its consumption, were to procure from alternative sources an amount of oil sufficient to make up for the loss of Middle East imports.

12. The loss of all Middle East oil would thus constitute a disaster to present prospects for a restoration of Western European viability. Moreover, the Western European rearmament programs as presently contemplated, like the earlier OEEC projects for general economic expansion, depend in part upon an increase in the use of oil. A decrease of 10 percent in oil consumption would render the present Western European rearmament program impossible of accomplishment.

13. No way can be foreseen at present by which a satisfactory adjustment, over a longer period of time, could be made to the total loss of Middle East oil, unless new reserves are proved elsewhere, or new sources of energy developed. Though the Middle East now contributes only 18.4 percent of total non-Soviet production, it contains 44.4 percent of proved reserves outside the Soviet orbit. A very large proportion of the presently contemplated increase in non-Soviet oil supply is expected to come from the Middle East. Western Europe will not be able to compensate for the loss of Middle East oil save by profound changes in its currently planned economic structure.

14. It may be noted that the Soviet Union, even though it should gain control of the oil output of the Middle East, would not be able itself to utilize it save to a limited degree under present availabilities of transportation. It would probably, therefore, in time of peace wish to sell considerable amounts of Middle Eastern oil to Western Europe. Since Western European oil requirements cannot adequately be met from other sources the USSR would thereby acquire considerable bargaining power in seeking to acquire strategic materials.

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ENCLOSURE B

- Table 1A. Estimated Imports of Crude Oil and Refined Products into
OEEC Countries 1950-1951.
- Table 1B. Estimated International Bunker Liftings (Refined Products)
in the Persian Gulf Area.
- Table II. ~~Ownership~~^{CONTROL} of World Crude Reserves 1950-1951.
- Table III. Ownership of World Crude Production 1950-1951.
- Table IV. Ownership of World Refining Capacity 1950-1951.
- Table V. Loss of Iranian Oil.
- Table VI. Loss of All Middle East Oil.

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ENCLOSURE B

TABLE 1A

ESTIMATED IMPORTS OF CRUDE OIL AND REFINED
PRODUCTS INTO OEEC COUNTRIES 1950-51

From

<u>Eastern Hemisphere</u>	<u>Crude</u>	<u>1,000 MT/Y</u>		<u>Crude Percent</u>	<u>Products Percent</u>	<u>Total Percent</u>
		<u>Products</u>	<u>Total</u>			
Middle East (Includes US military)	38,065	8,321	46,386	89.69	41.39	74.16
Other	---	<u>100</u>	<u>100</u>	---	<u>.50</u>	<u>.16</u>
Total	38,065	8,421	46,486	89.69	41.89	74.32
<u>Western Hemisphere</u>						
USA	150	1,850	2,000	.35	9.20	3.20
Caribbean	4,067	9,604	13,671	9.58	47.77	21.86
Other	<u>160</u>	<u>230</u>	<u>390</u>	<u>.38</u>	<u>1.14</u>	<u>.62</u>
	4,377	11,684	16,061	10.31	58.11	25.68 23.68
GRAND TOTAL	42,442	20,105	62,547	100.00	100.00	100.00

TABLE 1B

ESTIMATED INTERNATIONAL BUNKER LIFTINGS (REFINED
PRODUCTS) IN THE PERSIAN GULF AREA

1950 - 1951

	<u>1,000 MT/Y</u>	<u>Percent</u>
From Iran	4,000	66.67
From Other Middle East	<u>2,000</u>	<u>33.33</u>
Total	6,000	100.00

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2.

TABLE II

~~CONTROL~~
~~OWNERSHIP~~ OF WORLD CRUDE RESERVES

1950-1951

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Area	United States 1000 MT	%	25X6A		Other 1000 MT	%	Total 1000 MT	% World Total
<u>Eastern Hemisphere</u>								
Middle East								
Iraq	170,445	23.7	378,288	52.6	170,445	23.7	719,178	7.2
Kuwait	753,424	50.0	753,424	50.0	—	—	1,506,849	15.1
Saudi Arabia	1,232,877	100.0	—	—	—	—	1,232,877	12.3
Iran	—	—	958,904	100.0	—	—	958,904	9.6
Bahrain	—	—	21,917	100.0	—	—	21,917	.2
Total	2,156,746	—	2,112,533	—	170,445	23.7	4,439,725	44.4
East Indies Islands	62,172	31.3	136,459	68.7	—	—	198,631	2.0
OEEC Countries	5,834	20.0	7,293	25.0	16,044	55.0	29,171	.3
Total	68,006	—	143,752	—	16,044	—	227,802	—
<u>Western Hemisphere</u>								
25X6A								
US	3,713,562	100.0	—	—	—	—	3,713,562	37.0
25X	—	—	—	—	116,438	100.0	116,438	1.2
Caribbean Exporting Areas								
	888,865	61.5	550,663	38.1	5,781	0.4	1,445,309	14.5
Total	4,602,427	—	550,663	—	122,219	—	5,275,309	—
Other	—	—	—	—	—	1.4	45,136	.5
TOTAL WORLD							9,987,972	

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TABLE III

OWNERSHIP OF WORLD CRUDE PRODUCTION
1950-1951

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Area	United States		25X6A		Other		Total	
	1000 MT	Percent			1000 MT	Percent	1000 MT	Percent of World Total
<u>Eastern Hemisphere</u>								
<u>Middle East</u>								
Iraq	1,720	23.7	3,810	52.5	1,720	23.7	7,250	1.44
Kuwait	9,500	50.0	9,500	50.0	-	-	19,000	3.77
Saudi Arabia	29,750	100.0	-	-	-	-	29,750	5.91
Iran	-	-	35,000	100.0	-	-	35,000	6.95
Catar	476	23.8	1,048	52.4	476	23.8	2,000	.40
Bahrein	-	-	1,500	100.0	-	-	1,500	.30
Total	<u>41,446</u>	-	<u>50,858</u>	-	<u>2,196</u>	-	<u>94,500</u>	<u>18.77</u>
East Indies Islands	3,350	31.3	7,350	68.7	-	-	10,700	2.13
OEEC Countries	<u>538</u>	20.0	<u>681</u>	25.0	<u>1,563</u>	55.0	<u>2,782</u>	.55
Total	3,888	-	8,031	-	1,563	-	13,482	-
<u>25X6A Western Hemisphere</u>								
US	288,750	100.0	-	-	-	-	288,750	57.36
Caribbean Exporting Areas	-	-	-	-	10,000	100.0	10,000	1.99
Total	<u>55,055</u>	61.5	<u>34,108</u>	38.1	<u>327</u>	0.4	<u>89,490</u>	17.77
	343,805	-	34,108	-	10,327	-	388,240	-
Other	-	-	-	-	-	1.4	7,110	1.41
Total World	-	-	-	-	-	-	503,332	-

TABLE IV

OWNERSHIP OF WORLD REFINING CAPACITY
1950-1951

Area	United States 1000 MT Percent		British 1000 MT Percent		Other 1000 MT Percent		Total 1000 MT Percent of World Total	
<u>Eastern Hemisphere</u>								
<u>25X6A East</u>								
	-	-	800	100.00	-	-	800	.02
Kuwait	625	50.00	625	50.00	-	-	1,250	.25
Saudi Arabia	6,500	100.00	-	-	-	-	6,500	1.30
Abadan	-	-	27,500	100.00	-	-	27,500	5.52
Tripoli	142	23.75	285	42.50	173	28.75	600	.01
Bahrain	8,000	100.00	-	-	-	-	8,000	1.61
Total	15,267	-	29,210	-	173	-	44,650	-
East Indies Islands	3,200	31.68	6,900	68.32	-	-	10,100	2.03
South & East Asia	-	-	-	-	-	-	2,500	.50
	-	-	-	-	-	-	650	.01
Northern Africa & Spain	-	-	-	-	-	-	3,450	.69
OEEC Countries	-	-	-	-	-	-	44,429	8.92
	3,200	-	6,900	-	-	-	61,129	-
<u>Western Hemisphere</u>								
<u>25X6A West</u>								
United States	-	-	-	-	-	-	300,000	60.20
	-	-	-	-	15,500	100.00	15,500	3.11
	-	-	-	-	8,350	100.00	8,350	1.68
<u>Caribbean Exporting Areas</u>								
Colombia	1,420	100.00	-	-	-	-	1,420	.28
Venezuela	7,007	57.2	5,243	42.8	-	-	12,250	2.46
Peru	1,452	96.8	24	1.6	24	1.6	1,500	.30
Ecuador	-	-	230	100.00	-	-	230	.00
Trinidad	-	-	4,750	100.00	-	-	4,750	.95
Netherlands W. Indies	21,000	53.4	18,300	46.6	-	-	39,300	7.89
Total	30,879	-	28,547	-	23,874	-	383,300	-
Other Latin America	-	-	-	-	-	-	9,250	1.86
Total	30,879	-	28,547	-	23,874	-	392,550	-

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TABLE V

LOSS OF IRANIAN OIL

(Millions of Units)

1. Production - physical quantities (1950-51)
 - a. Crude 35 MT/Y (metric tons per year)
 - b. Refined 25 MT/Y
2. Loss of crude imports from Iran by Western Europe 7.5 MT/Y
3. Dollar element of cost in replaced crude \$55
4. Loss of refined products imported from Iran by Western Europe and Sterling Area 25 MT/Y
5. Annual dollar cost of replacing refined (Item 4) \$765-775
6. Gross dollar cost of replacing crude and refined (Items 3 and 5) \$820-830
7. Dollar savings - equipment and services \$110-120
8. Estimated net dollar cost annually (Item 6 minus Item 7) \$710

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TABLE VI

LOSS OF ALL MIDDLE EAST OIL

(Millions of Units)

- | | | |
|---|-----------|--|
| 1. Production - physical quantities (1950-51) | | |
| a. Crude | 94.5 MT/Y | |
| b. Refined | 44.7 MT/Y | |
| 2. Loss of crude imports from Middle East by Western Europe | 43.5 MT/Y | |
| 3. Dollar element in replaced crude | \$800 | |
| 4. Loss of refined products imported from Middle East by Western Europe and Sterling Area | 38 MT/Y | |
| 5. Annual dollar cost of replacing refined (Item 4) | \$1200 | |
| 6. Gross dollar cost of replacing crude and refined (Items 3 and 5) | \$2000 | |
| 7. Dollar savings - equipment and supplies, profits to Bahrien Petroleum Co., dollar element in goods furnished Middle East by Western Europe, etc. | \$600 | |
| 8. Estimated <u>net</u> dollar cost annually assuming no cutback in current requirements (Item 6 minus Item 7) | \$1400 | |
| 9. Ten percent cutback would save | \$300 | |

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